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More R&D Funding In The Next Budget?

Industry and Ottawa talk-up possible changes to SR&ED and other programs

Some possibilities to watch for:

- > More SR&ED benefits as cash refund vs. ITC?
- > Flow-through share scheme for R&D commercialization?
- > Tax credits for technology training?
- > Clarification of SR&ED rules?

Ever since the Conservative government started curtailing the Technology Partnerships Canada (“TPC”) funding program earlier this year, tax credits have moved to centre stage in Ottawa's science and technology incentive strategies.

Since early September of this year, there has been vigorous dialogue between Ottawa and some of Canada's most influential industry groups on exactly what changes are needed, especially with regard to SR&ED tax credits.

There is mounting evidence to suggest that the next federal budget – expected March 2007 - might well feature significant changes in federal support for private sector R&D. These changes could include improvements to the SR&ED tax credit program both in terms of benefit levels and in how CRA delivers it. Another possibility is some form of new flow-through share scheme - long used as an effective incentive for the Canadian mining industry - to help technology companies raise capital to commercialize R&D results.

Although on the surface industry lobbying might seem at the root of this initiative, much of the ground work was laid by a massive survey study undertaken by *The Council of Canadian Academies* that was commissioned by Ottawa in June 2006, not long after Stephen Harper formed his new government. The Council's report – delivered on September 12, 2006 – set the stage for the new government's Science & Technology policy. Notable in the report's findings were industry survey results that gave high rankings to SR&ED tax credits as a highly effective means for “supporting the commercialization of research”. Notably absent in that report was any positive reference to TPC. We believe that some form of flow through share scheme may be implemented to replace it.

But the burning question is: How will CRA react to any increase in tax credits? Will CRA try to limit the budget impact by balancing off any increases in the benefit level with a cut-back in availability through more stringent audits? Unfortunately we are already seeing a clear trend in this direction.

Following below we have assembled a timeline showing several key citations that could point where things are heading in the March budget:

18-APR-2006, [Pre-Budget Submission to the Honorable James Flaherty, P.C., M.P. Minister of Finance by Certified Management Accountants \(CMAs\) Canada:](#)

“CMA Canada recommends: Provide a refundable 150% investment tax credit up to \$10,000 per worker per year to encourage businesses to have workers upgrade their IT skills and increase competitiveness.”

JUNE 2006, Newly elected conservative government commissions The Council of Canadian Academies to conduct a massive survey of key players in Canadian scientific and technology communities on R&D related issues in industry.

12-SEP-2006, *The Council of Canadian Academies* issues its report citing opinions of 1,500 respondents in the science and technology sector. The report praises SR&ED tax credits and the IRAP grant program. References to Technology Partnerships Canada as a funding mechanism were notably absent from the report.

21-SEP-2006, [Presentation to Standing Committee on Finance by CAE Inc:](#)

“The refund should be provided to businesses that have invested in R & D but are unable to convert the SR & ED credit into cash, as is the case for small business.”

26-SEP-2006, Canadian Industry Minister Maxime Bernier cuts funding to Technology Partnerships Canada by \$42 million over the next two years. While in theory this leaves TPC operating for existing or in-process deals, it effectively ends any new investments.

3-OCT-2006, [Presentation to Standing Committee on Finance by The Forest Products Association of Canada \(FPAC\):](#)

“Extended refundability of SR&ED Tax Credits, allowing the realization of Canada's innovative capacity, particularly in market downturns.”

3-OCT-2006, [Presentation to Standing Committee on Finance by Canada's Research-Based Pharmaceutical Companies \(Rx&D\):](#)

“Expand the definition of SR&ED to include research in the social sciences as contained in the OECD definition;

Increase the SR&ED tax credit to cover international R&D collaborations regarding R&D done in Canada;

Make the full amount of SR&ED tax credits refundable for all biopharma start-ups.”

2-NOV-2006, from [Workopolis Science](#):

“Flow-through shares are in the air again,” said McCarthy Tétrault partner Vanessa Grant. “The biotech industry has had meetings with the Ministry about flow-through shares and that’s the message that has flowed up to the Minister.”

14-OCT-2006, from [Globe & Mail Report on Business, B4](#):

“Canada’s manufacturers are turning up the heat on Ottawa to help them out of their economic troubles.”

“The manufacturers will launch their lobbying effort today asking Prime Minister Stephen Harper for lower corporate taxes, less red tape and better tax credits for research and training.”

“As for tax credits they want Ottawa to make its research and development regime more relevant, but not necessarily enrich it. And they want a new tax credit for training.”

15-OCT-2006, [News Release, Canadian Advanced Technology Alliance \(CATA\)](#):

“The SRED tax credit program needs updating and improvement if the tax system is to be a fully effective tool for promoting innovation by Canadian businesses in all sectors.”

“CATA provided the Minister of Finance with options and recommendations for improvements featuring the following themes:

- *Refundability: the availability of the “refundable” tax credits to a business in the form of cash refunds.*
- *Broader range of activities and costs considered eligible in an SR&ED project.*
- *Improving the legislation and policies, and associated administrative practices of CRA.*
- *Interpretive issues related to the complexity of the legislation and associated policies.*
- *The impact of CRA’s administrative practices on the effectiveness of the SR&ED program, i.e., the effective delivery of the incentives to those who are entitled to them.”*

And the reactions...

23-NOV-2006, [Federal Minister of Finance James Flaherty issues “Economic Update” statement](#):

The Minister said the government will *“create the right kind of tax and business environment to encourage the private sector to turn bright ideas into new products and to boost its efforts in research and development.”*

Mr. Flaherty said his agenda *“.. deals primarily with encouraging increased productivity in Canada and increased investment by the private sector in R&D, which lags dramatically in Canada,”*

24-NOV-2006, [Rx&D Welcomes Science and Technology Initiative in Economic Update](#)

Russell Williams, President of Canada’s Research-Based Pharmaceutical Companies (Rx&D) offered the following in response to the Minister’s November 23, 2006 Economic Update statement

“Rx&D also supports the announcement to 'develop and implement a new, comprehensive, excellence-based science and technology strategy' policy for Canada.”

“Canada's Research-Based Pharmaceutical Companies (Rx&D) commends the federal government on its commitment to ensure Canadian industries have an improved environment to commercialize new products they research and develop and create jobs through its new program Advantage Canada.”

24-NOV-2006, BIOTECanada Responds to the Federal Government's Economic Update

“BIOTECanada continues to push for two vital improvements to the Scientific Research and Experimental Development (SR&ED) refundable tax credit program: (i) an update of the annual research and development (R&D) expenditure limit set in 1985 at \$2 million to a more appropriate \$10 million, and (ii) the removal of the current Canadian Controlled Private Corporation (CCPC) restriction. Canada's growing industry looks to expand R&D and improve the success rate of commercialization of innovative products. Creating a business environment conducive to innovation relies on these basic changes.”

For more information on this topic, contact:

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About Scitax...

Scitax Advisory Partners is a professional services firm with specialist expertise in Scientific Research and Experimental Development (SR&ED) tax credits.

We offer a team of senior technical consultants all of whom have ten or more years experience in the SR&ED field. All Scitax technical consultants have engineering or science backgrounds and at least twenty years industry experience in their particular field prior to consulting.

Our primary function is to produce a technical submission package that most effectively communicates your SR&ED claim to CRA in a way that highlights eligibility and expedites processing. We assist you in identifying and preparing all required documentation including project technical descriptions, cost schedules, and everything else your tax preparer needs to file the claim. Once your claim is filed, Scitax will advocate for you with CRA and help you negotiate fair settlement of your claim.

While we normally work with our client's existing tax advisors, our affiliated firm Cadesky and Associates can provide a full package of tax services if required.



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